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Growth of the Arab Tanker Fleets

Introduction

1. The oil and gas producing states, led by the Arabs, are utilizing some of their growing surplus oil revenues to acquire an oil and gas tanker fleet to increase their participation in downstream operations. To achieve this end, the Organization of Arab Petroleum Exporting Countries (OAPEC) has organized the Arab Maritime Petroleum Transportation Company (AMPTC) while national fleets are also being expanded.

Current Status of the Fleet

2. The combined tanker fleets of the oil and gas producing states totaled some two million DWT at the end of 1973, a small share of the world's total tanker fleet of over 200 million DWT. Kuwait, with a fleet of six tankers totaling 800,000 DWT -- of which three are VLCCs averaging around 200,000 DWT -- has by far the largest and most modern producer-owned tanker fleet. Iraq owns the second largest fleet with 300,000 DWT in its inventory, while Saudi Arabia currently controls only one tanker of 27,000 DWT. The Libyan fleet is roughly similar to Iraq's. Algeria is currently the only producing country operating liquefied gas tankers. Other producers -- Venezuela, Indonesia, Iran, Ecuador, Nigeria and Malaysia -- all control very small tanker fleets of little significance.

3. In each country, there is an acute shortage of trained manpower to man the fleets or manage their operations. Most of the Kuwaiti fleet is manned by British, Soviet and Pakistani seamen while others rely heavily on foreign nationals for crews and management expertise.

Fleet Expansion Programs

4. Producer countries, buoyed by the recent upsurge in oil export earnings and attempting to expand their downstream operations, are currently engaged in an active program to expand their tanker fleets. Through both ambitious national programs and joint ventures among the producers and with Western firms, several projects are currently underway to expand the overall fleet to 25 million DWT by 1980 -- more than 10 times the 1973 level. New orders already on the books total about $2.0 billion for some 7 million DWT, with prospective orders expected to reach $5 billion by the 1980's.

National Programs

5. Each of the major oil and gas producing nations have established wide ranging programs to significantly expand their national tanker fleets by 1980. Kuwait, acting through the Kuwait Oil Tanker Company, has four VLCCs on order totaling 1.3 million DWT at a cost of $250 million. In addition, $275 million has been allocated to organize a company to transport

liquefied gas and $260 million is planned for the development of an oil products tanker fleet of 13 small to medium tankers.

6. Iraq has ordered 1.3 million DWT in the 125,000 to 150,000 DWT range and reportedly is in the market for additional tonnage. Libya has ordered 750,000 DWT for delivery by 1976 while Venezuela -- with foreign participation -- has plans to develop a modern 2 million DWT fleet and support facilities by the 1980's to haul up to half of its estimated exports of 2 million barrels a day. Iran is on the order books for four VLCCs totaling 900,000 DWT while Ecuador is planning a national fleet capable of transporting about 100,000 barrels a day by the end of the decade.

7. Indonesia and Nigeria have announced tentative plans to develop oil tanker fleets, but details to date are not available. Saudi Arabia also has some formative plans for a national fleet, but to date most of its efforts in this area have been concentrated upon the development of the Arab Maritime Petroleum Transport Company, the OAPEC sponsored tanker fleet, and other joint ventures.

8. The Japanese, who specialize in building large tankers, have received the majority of new orders from the producers thus far -- over 3 million tons worth about $1 billion. Sweden and West Germany trail with about 1 million tons each worth a total of $500 million. Yards in Yugoslavia and Spain have also received

substantial orders. Most of the tankers on order are for VLCCs, crude carriers in excess of 175,000 DWT.

Joint Ventures

9. In addition to the development of national fleets, the producing countries -- especially in the Persian Gulf -- are entering into joint ventures with other producers and with Western firms -- particularly independent shipowners -- to own and operate oil tankers. The establishment of joint ventures is more important in the liquefied gas, petrochemicals, and refined products sectors, where more than 150 joint projects are currently under consideration by Middle East producers and Western companies.

Arab Maritime Petroleum Transport Company (AMPTC)

10. Organized in 1973 by the Organization of Arab Petroleum Exporting Countries (OAPEC), AMPTC represents an active move by the Arab producers -- spearheaded by Saudi Arabia and Kuwait -- to expand their tanker assets. The original capital subscription of $100 million has been increased to $500 million and plans are to acquire a 10 million DWT fleet costing over $2 billion by 1980. The company has ordered five VLCCs in the 300,000 DWT to 400,000 DWT range at a cost of over $300 million and is requesting bids on six new tankers costing $165 million in the 50,000 DWT to 100,000 DWT range.

11. At the same time, AMPTC is active in the used market and is searching for three tankers in the 100,000 to 300,000 DWT

class for delivery in 1975. Moreover, as most Arab oil producers are planning to expand their refining capability, AMPTC is considering a shift in orders from VLCCs to smaller specialized product tankers in the 50,000 to 100,000 DWT range.

12. To complement AMPTC, a ship building and repair company has been organized. Two $200 million facilities able to handle the largest tankers currently in operation are planned in Bahrain and Malta. Finally, to train desperately needed manpower, an inter-Arab merchant marine academy will be established in Egypt.

Other Joint Ventures

13. The Saudis are forming several new private shipping companies with foreign partners. One -- a consortium of Saudi, Hong Kong and British companies known as SATCO -- plans to purchase two 200,000 DWT tankers as well as LNG tankers to move LNG to the US, Japan, Argentina and Brazil. In addition, Saudi Arabia and Japan have reached an agreement to establish two shipping companies in Saudi Arabia, one of which will operate oil tankers between Saudi Arabia and Japan. Two large tankers have been ordered from Mitsui shipbuilding for this fleet. Other deals have been concluded with Spanish and US interests. Ventures involving petrochemical complexes and associated tankers are being contemplated.

14. Similar deals are being concluded with increasing regularity in the Middle East. A Dutch shipping firm and the

United Arab Emirates have organized a company to carry crude oil and plan to acquire four large tankers within the next two years. The Dutch company will manage the enterprise for 12 years, after which ownership will revert to the UAE. Egypt has entered into an agreement with the US to operate a shipping company to transport oil while Iran and Pakistan have organized a joint company to carry Iranian oil to Pakistan and other countries.

Flag Preference Legislation

15. In addition to various ambitious national programs and joint ventures to expand tanker assets, various producing countries have enacted flag preference legislation designed to assure full utilization of their fleets. In some cases, this legislation is tied directly to the availability of crude oil for export. Thus, for a consumer to obtain its required oil, it must first agree to move a certain percentage on ships of the producing country.

16. For example, in a recent "auction" of participation and royality crude, Kuwait announced that it would give preferential treatment to countries who would transport Kuwaiti royalty and participation crude -- some 1.7-1.8 million b/d -- in Kuwaiti flag vessels. Libya and Saudia Arabia have similar legislation. The Arabs also indicated AMPTC tankers will receive perferences.

Conclusion

17. Ambitious national programs and joint ventures to expand tanker fleets among the world's oil and gas producers will have limited impact on the future world tanker market. Their presence, however, will aggravate the tanker glut expected in the 1980's. By 1980, the producers will control some 25 million DWT in modern oil tankers, only about six percent of the projected world fleet of about 400 million DWT. This fleet will enable producers to move about 10-15 percent of expected world oil trade.